

EMPLOYEE BENEFITS

Agency Mission

To provide centralized budgetary and financial control over employee fringe benefits paid by the County.

Agency Summary					
Category	FY 2002 Actual	FY 2003 Adopted Budget Plan	FY 2003 Revised Budget Plan	FY 2004 Advertised Budget Plan	FY 2004 Adopted Budget Plan
Expenditures:					
Fringe Benefits					
Expenditures	\$137,201,240	\$147,456,413	\$155,353,825	\$163,595,491	\$164,591,320
Reimbursements	(26,771,780)	(26,785,838)	(26,837,253)	(29,974,665)	(29,974,665)
Net General Fund Fringe Benefits	\$110,429,460	\$120,670,575	\$128,516,572	\$133,620,826	\$134,616,655
Personnel Services	\$1,984	\$0	\$0	\$0	\$0
Operating Expenses ¹	3,932,791	7,698,586	10,166,011	7,514,558	7,406,536
Capital Equipment	0	0	0	0	0
Total Expenditures	\$114,364,235	\$128,369,161	\$138,682,583	\$141,135,384	\$142,023,191

¹ Includes Training, Conferences, Workers Compensation, and Other Operating Expenses.

Summary by Cost Center					
Cost Center	FY 2002 Actual	FY 2003 Adopted Budget Plan	FY 2003 Revised Budget Plan	FY 2004 Advertised Budget Plan	FY 2004 Adopted Budget Plan
Employee Benefits	\$112,911,028	\$126,743,547	\$136,368,843	\$139,757,456	\$140,747,182
Training and Conferences ¹	\$1,453,207	\$1,625,614	\$2,313,740	\$1,377,928	1,276,009
Total Expenditures	\$114,364,235	\$128,369,161	\$138,682,583	\$141,135,384	\$142,023,191

¹ Includes tuition/training expenses, personnel services expenses for a sign language instructor, other operating expenses and capital equipment.

Board of Supervisors' Adjustments

The following funding adjustments reflect all changes to the FY 2004 Advertised Budget Plan, as approved by the Board of Supervisors on April 28, 2003:

- ◆ An increase of \$538,534 is included to fund the General Fund contribution to the Police and Uniformed Retirement plans to implement the Deferred Retirement Option Plan (DROP) for Police and Uniformed Retirees. Of this amount, \$245,319 is for the Police Retirement plan and \$293,215 is for the Uniformed Retirement plan. As a result of this action, the employer contribution rates for the Police Retirement plan will be increased to 17.96 percent and the Uniformed Retirement plan increased to 22.60 percent. See the Employee Retirement Systems Overview in Volume 2 of the FY 2004 Adopted Budget Plan for more details regarding the implementation of the DROP plan for Police and Uniformed retirees.
- ◆ An increase of \$450,000 is included to partially fund the General Fund contribution to the Uniformed Retirement system based on plans to implement an average 12 percent benefit enhancement for Uniformed system retirees. It should be noted that the full fiscal year impact of this adjustment is estimated to be \$1.86 million. See the Employee Retirement Systems Overview in Volume 2 of the FY 2004 Adopted Budget Plan for more details regarding plans to implement a 12 percent benefit enhancement for Uniformed System retirees.

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- ◆ A net decrease in training dollars for County employees of \$100,000. This reduction is spread equally across the funding for countywide initiatives, the General County Training program, IT training, and Outlook Training.
- ◆ A net decrease of \$727 including a net decrease of \$8,022 in Operating Expenses offset by a net increase of \$7,295 in Fringe Benefits, as a result of the following adjustments:
 - Reduction in fringe benefits as a result of a reduction in the Public Safety Market adjustment from a proposed 2.56 percent to 2.1 percent,
 - Reduction in fringe benefits associated with the abolishment of 14/11.72 SYE proposed positions in Agency 67, Department of Family Services, based on the decision to fund only one room at each new School Aged Child Care (SACC) center,
 - Reduction in fringe benefits associated with the abolishment of 13/13.0 SYE positions in Agency 91, Office of the Sheriff, based on the decision to privatize food services at the Adult Detention Center,
 - A net increase in fringe benefits as a result of adjustments made to other agencies,
 - Reduction in Operating Expenses for the Employer Contribution for Worker's Compensation as a result of the impact of the approved 25 percent reduction in pay for performance, the FY 2004 program will result in reductions in the increases employees will receive based on their performance rating, capping employees to a maximum of 5.25 percent, and
 - Reduction in Operating Expenses for the Employees Advisory Council (EAC).

The following funding adjustments reflect all approved changes to the FY 2003 Revised Budget Plan from January 1, 2003 through April 21, 2003. Included are all adjustments made as part of the FY 2003 Third Quarter Review:

- ◆ An increase of \$222,960 for the General Fund contribution to Fund 501, County Insurance, due to increasing costs for Worker's Compensation as a result of several significant medical claims resulting in long-term disability and extensive medical treatment.
- ◆ An increase of \$4,500,000 for the General Fund employer contribution to Fund 506, Health Benefits Trust Fund, in order to offset escalating medical and prescription claims costs and to provide a buffer against excessive premium increases.

County Executive Proposed FY 2004 Advertised Budget Plan

FY 2004 Budget Reductions

As part of the FY 2004 Advertised Budget Plan, reductions totaling \$710,083 are proposed by the County Executive for this agency. These reductions include:

- ◆ Reduction of \$79,608 to General County Training programs. This amounts to approximately 5.0 percent of the total General County Training budget. No specific training programs will be eliminated as the reduction will be allocated among the various programs offered to employees.
- ◆ Reduction of \$173,000 for the MindLeaders contract for computer-based training, resulting in the elimination of this web-based and self-paced information technology training for County employees. This will result in a reduction in the availability of IT training for general County staff.

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- ♦ Reduction of \$457,475 reflecting the impact of reductions taken in other General Fund agencies on Fringe Benefits.

In addition, as part of the FY 2004 Advertised Budget Plan, the County Executive has proposed a user fee structure to support the athletic field maintenance program.

- ♦ Increase of \$184,605 in Fringe Benefits reimbursements based on the proposed redesign of the athletic field maintenance program which includes the consolidation of the Department of Community Recreation Services' General Fund budget for athletic field maintenance with the Fairfax County Park Authority's capital project for athletic fields as well as the implementation of an athletic field user fee. (See Fund 303, County Construction in Volume 2 of the FY 2004 Advertised Budget Plan for more details regarding the consolidation of all athletic field maintenance activities.)

Purpose

Agency 89, Employee Benefits, is a set of consolidated accounts that provide budgetary control for most employee fringe benefits paid by the County. Benefits paid for all County employees of General Fund agencies are expended from this agency, as well as most benefits paid for County employees in Non-General Fund agencies. Reimbursements are received from Non-General Fund agencies for benefits paid on behalf of their employees.

▪ Group Health Insurance

Fairfax County Government offers its employees and retirees two health insurance alternatives, with the intent of offering employees the best available options. The first is a self-insured alternative including point of service and preferred provider options. The second alternative includes vendor-administered Health Maintenance Organizations (HMOs).

It should be noted that the self-insured health insurance choices are administered through Fund 506, Health Benefits Trust Fund. For a more detailed discussion of the County's self-insured health trust fund, refer to Fund 506, in Volume 2 of the FY 2004 Advertised Budget Plan.

▪ Group Life Insurance

Life insurance coverage for employees, as approved by the Board of Supervisors beginning in FY 1999, provides group life insurance coverage at 1 times salary for all County employees funded solely through an employer contribution. If employees choose to accept life insurance coverage above this amount, they are responsible for paying the full premium based on an age-banded premium rating scale.

▪ Social Security (FICA)

Social Security contributions represent the employer portion of salary required to meet social security and medicare tax obligations for Fairfax County employees. Social Security contributions are calculated utilizing a combined rate which includes: the portion of salary contributed for Social Security benefits and the portion of salary contributed for Medicare benefits applied to a pre-determined wage base. Any change to the wage base or the Social Security rate is announced in October/November and takes effect January 1 of the upcoming year.

▪ Retirement

Retirement expenditures represent the General Fund net contribution to the three retirement systems as set by employer contribution rates. On March 18, 2002 the Board of Supervisors adopted a corridor approach to employer contributions. The corridor approach adds further stability to the employer contribution rates and continues to adequately fund the Retirement Systems. In the corridor method of funding a fixed contribution rate is assigned to each System and the County contributes at the fixed rate unless the System's funding ratio falls outside the pre-selected corridor of 90-120 percent or if benefit enhancements are approved.

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In addition, retirees are eligible to receive a Cost of Living Adjustment (COLA) composed of a base COLA which is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year's March 31, or 4.0 percent. An additional 1.0 percent COLA can be awarded at the discretion of each retirement system's Board of Trustees. This additional COLA is considered a benefit enhancement and results in an increase in the employer contribution rate.

- **Virginia Retirement System (VRS)**

Beginning in FY 1996, VRS funding was provided in Agency 89 for 233 Health Department employees who were converted from State to County employment. Funding reflects the County's share of payments made into VRS for the converted employees. It should be noted that VRS payments are included only for these converted employees. As they terminate service with the County or transfer to other positions within the County, funding for VRS payments will be reduced.

- **Unemployment Compensation**

Unemployment compensation payments reflect premiums paid to the State based on the actual number of former Fairfax County employees filing claims.

- **Capital Projects Reimbursements**

Capital Projects reimbursements represent the reimbursable portion of fringe benefits for County employees who charge a portion of their time to capital projects.

- **Training**

General training centrally managed by the Department of Human Resources and the Language Coordinator includes: language skills training, to recruit and retain bilingual staff to better serve foreign-born residents; the employee tuition assistance (TAP) and language tuition assistance (LTAP) reimbursement programs, and courses related to communications, supervisory development, team building, and career development.

Countywide initiatives include designated training approved by the County Executive and Deputy County Executives, performance measurement training, and expenses associated with the County Executive's specially designated task forces.

Technology-related training is offered in recognition of the challenges associated with maintaining skills at the same pace as technology changes. The rate of change in information technology has out-paced the County's ability to maintain proficiency. As the County's workforce becomes increasingly dependent on information technology, training support has become more essential.

- **Workers Compensation**

Workers compensation funding reflects payments to Fund 501, County Insurance Fund, for General Fund premiums. For a more detailed discussion of the County Insurance Fund, refer to Fund 501, Volume 2 of the FY 2004 Advertised Budget Plan.

- **Employee Assistance Program (EAP)**

Provision of EAP services, including assessment, intervention, diagnosis, referral, and follow-up for workplace issues as they arise is funded through a contract with an outside vendor.

- **Other Operating/Capital Equipment**

The Operating Expenses of the Employee's Advisory Council (EAC) are funded utilizing one third of 85 percent of the actual revenues realized from vending machine sales.

EMPLOYEE BENEFITS

FY 2004 Initiatives

Group Health Insurance

- ◆ Health Insurance premiums of \$42,784,134, an increase of \$3,456,497, or 8.8 percent, over the *FY 2003 Revised Budget Plan*.
- ◆ The increase over the *FY 2003 Revised Budget Plan* is based on nationwide health insurance cost growth trends, which result in a projected average health insurance premium increase of 25.0 percent for the self-insured plan and 15.0 percent for the HMOs, effective January 1, 2004 (a six-month impact in FY 2004).
- ◆ The County offers a competitive program of health care coverage for employees and retirees. After slow medical cost growth in the early to mid 1990's, spending for health care has been steadily increasing in recent years. The primary factors in the escalating cost growth are increased utilization and the rising costs of prescription drugs.

Social Security (FICA)

- ◆ Social Security contributions total \$34,875,514, an increase of \$1,743,513, or 5.3 percent, over the *FY 2003 Revised Budget Plan*, primarily reflecting a change in the federally set maximum pay base against which contributions are calculated, the impact of pay for performance/merit increases for current staff, salary adjustments, and new positions.
- ◆ The Social Security wage base increases from \$84,900 to \$87,000 as of January 1, 2003 for the 6.20 percent base contribution rate. The wage base against which the 1.45 percent rate for Medicare is applied remains unlimited. The overall Social Security rate remains unchanged at 7.65 percent. The wage base and/or rate change for January 1, 2004 is not yet known; any subsequent adjustments to the Social Security wage base with a fiscal impact will be included at a quarterly review during FY 2004.

Retirement (Police, Fairfax County Employees, Uniformed, VRS)

- ◆ The FY 2004 employer contributions total \$54,143,167, an increase of \$3,529,609 or 7.0 percent, over the *FY 2003 Revised Budget Plan*. The net increase is based on the estimated salary base for current staff.
- ◆ Based on the most recent actuarial valuation and provision of a COLA benefit enhancement of 0.67 percent for the Police Officers Retirement System and 1.0 percent for both the Fairfax County Employees' and Uniformed Retirement Systems approved by the Board of Supervisors and Boards of Trustees and effective July 1, 2002, the FY 2004 employer contribution rates are recommended to change as outlined in the table below. It should be noted that the net General Fund impact solely based on the change in rates is:

Fund	FY 2003 Employer Contribution Rates	FY 2004 Employer Contribution Rates	Basis Point Change	Net General Fund Impact
Police Officers	17.30	17.62	0.32	\$257,591
Fairfax Co. Employees'	6.00	6.13	0.13	320,057
Uniformed	21.65	21.90	0.25	<u>265,696</u>
TOTAL				\$843,344

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- ◆ Based on past and year-to-date investment performance the funding ratios could conceivably fall outside the corridor for the year ending June 30, 2003. This will have a significant impact on the FY 2005 employer contribution rates and General Fund costs. Final information will be included in the FY 2005 budget.
- ◆ The changes in the rates, along with the increase associated with salary requirements, have been included in the FY 2004 Advertised Budget Plan.

Training

- ◆ In FY 2004, Agency 89 training totals \$1,339,542, a decrease of \$940,734 from the *FY 2003 Revised Budget Plan*. The decrease is based on the one-time carryover of \$688,126 at the *FY 2002 Carryover Review*, a decrease of \$173,000 to eliminate the MindLeaders contract in FY 2004, and \$79,608 in reductions to the General County Training programs.

Total FY 2004 training funding includes the following:

- ◆ \$357,892 is included to fund General County Training programs including the sign language interpreter, language skills training, computer based training, team building and supervisory development.
- ◆ \$451,650 is included for countywide initiatives including designated training approved by the County Executive and the Deputy County Executives, performance measurement training, and expenses associated with the County Executive's specially designated task forces.
- ◆ \$120,000 is included to continue funding Microsoft Outlook training for new employees and to provide refresher courses as needed.
- ◆ \$200,000 is included to continue funding information technology training in recognition of the challenges associated with maintaining skills at the same pace as technology changes.
- ◆ \$200,000 is included for TAP reimbursement for approximately 355 employees.
- ◆ \$10,000 is included for LTAP reimbursements for approximately 40 employees.

Worker's Compensation

- ◆ In FY 2004, the General Fund worker's compensation premium totals \$5,845,126, a decrease of \$1,503,893 from the *FY 2003 Revised Budget Plan*. This amount is included to fund the required contribution to Fund 501, County Insurance needed to meet anticipated claims (see Volume 2 of the FY 2004 Advertised Budget Plan for additional details).

Funding Adjustments

The following funding adjustments reflect all approved changes to the FY 2003 Revised Budget Plan since passage of the FY 2003 Adopted Budget Plan. Included are all adjustments made as part of the FY 2002 Carryover Review and all other approved changes through December 31, 2002:

- ◆ An increase of \$3,000,000 for the General Fund Employer Contribution to Fund 506, Health Benefits Trust Fund, the self-insured health insurance plan.
- ◆ An increase of \$1,556,339 to the County's contribution for Fund 501, County Insurance based on increased expenditures associated with Worker's Compensation.
- ◆ A net increase of \$345,997 reflecting position adjustments in other General Fund agencies.
- ◆ Encumbered carryover of \$688,126.

EMPLOYEE BENEFITS

The following chart summarizes Employee Benefit costs and associated reimbursements from Non-General Fund agencies and from capital projects.

Summary of Employee Benefits Costs by Category

BENEFIT CATEGORY	FY 2002 Actual	FY 2003 Adopted	FY 2003 Revised	FY 2004 Advertised	FY 2004 Adopted	Amount Inc/(Dec)	Percent Inc/(Dec)
Fringe Benefits							
Group Health Insurance							
Expenditures	\$35,916,903	\$42,136,738	\$49,636,738	\$50,078,607	\$50,034,857	\$398,119	0.80%
Reimbursements	(5,885,527)	(5,809,101)	(5,809,101)	(7,294,473)	(7,294,473)	(1,485,372)	25.57%
Net Cost	\$30,031,376	\$36,327,637	\$43,827,637	\$42,784,134	\$42,740,384	(\$1,087,253)	-2.48%
Group Life Insurance							
Expenditures	\$2,582,727	\$2,779,979	\$2,779,979	\$2,910,047	\$2,907,133	\$127,154	4.57%
Reimbursements	(854,991)	(940,344)	(940,344)	(544,609)	(544,609)	395,735	-42.08%
Net Cost	\$1,727,736	\$1,839,635	\$1,839,635	\$2,365,438	\$2,362,524	\$522,889	28.42%
FICA							
Expenditures	\$40,898,609	\$43,987,408	\$44,049,956	\$46,371,957	\$46,455,681	\$2,405,725	5.46%
Reimbursements	(10,728,377)	(10,866,540)	(10,917,955)	(11,496,443)	(11,496,443)	(578,488)	5.30%
Net Cost	\$30,170,232	\$33,120,868	\$33,132,001	\$34,875,514	\$34,959,238	\$1,827,237	5.52%
Fairfax County Employees' Retirement							
Expenditures	\$22,794,468	\$22,596,518	\$22,596,518	\$24,518,354	\$24,488,589	\$1,892,071	8.37%
Reimbursements	(8,176,267)	(8,129,497)	(8,129,497)	(9,589,140)	(9,589,140)	(1,459,643)	17.95%
Net Cost	\$14,618,201	\$14,467,021	\$14,467,021	\$14,929,214	\$14,899,449	\$432,428	2.99%
Uniformed Retirement	\$18,778,608	\$22,103,027	\$22,437,891	\$23,912,286	\$24,655,501	\$2,217,610	9.88%
Police Retirement	\$15,077,920	\$12,562,356	\$12,562,356	\$14,499,579	\$14,744,898	\$2,182,542	17.37%
Virginia Retirement System	\$892,028	\$1,146,290	\$1,146,290	\$802,088	\$802,088	(\$344,202)	-30.03%
Unemployment Compensation	\$259,977	\$144,097	\$144,097	\$502,573	\$502,573	\$358,476	248.77%
Capital Project Reimbursements	(\$1,126,618)	(\$1,040,356)	(\$1,040,356)	(\$1,050,000)	(\$1,050,000)	(\$9,644)	0.93%
Fringe Benefit Expenditures	\$137,201,240	\$147,456,413	\$155,353,825	\$163,595,491	\$164,591,320	\$9,237,495	5.95%
Fringe Benefit Reimbursements	(\$26,771,780)	(\$26,785,838)	(\$26,837,253)	(\$29,974,665)	(\$29,974,665)	(\$3,137,412)	11.69%
General Fund Fringe Benefits	\$110,429,460	\$120,670,575	\$128,516,572	\$133,620,826	\$134,616,655	\$6,100,083	4.75%
Operating Expenses							
Tuition/Training	\$1,432,368	\$1,592,150	\$2,280,276	\$1,339,542	\$1,239,542	(\$1,040,734)	-45.64%
Other Operating	20,839	33,464	33,464	38,386	36,467	3,003	8.97%
Worker's Compensation	2,199,461	5,792,680	7,571,979	5,845,126	5,839,023	(1,732,956)	-22.89%
Employee Assistance Program	282,107	280,292	280,292	291,504	291,504	11,212	4.00%
Total Operating Expenses	\$3,934,775	\$7,698,586	\$10,166,011	\$7,514,558	\$7,406,536	(\$2,759,475)	-27.14%
TOTAL EXPENDITURES	\$141,136,015	\$155,154,999	\$165,519,836	\$171,110,049	\$171,997,856	\$6,478,020	3.91%
TOTAL REIMBURSEMENTS	(\$26,771,780)	(\$26,785,838)	(\$26,837,253)	(\$29,974,665)	(\$29,974,665)	(\$3,137,412)	11.69%
NET COST TO THE COUNTY	\$114,364,235	\$128,369,161	\$138,682,583	\$141,135,384	\$142,023,191	\$3,340,608	2.41%

EMPLOYEE BENEFITS



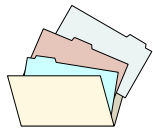
Employee Benefits¹

Cost Center Summary					
Cost Center	FY 2002 Actual	FY 2003 Adopted Budget Plan	FY 2003 Revised Budget Plan	FY 2004 Advertised Budget Plan	FY 2004 Adopted Budget Plan
Total Expenditures	\$139,682,808	\$153,529,385	\$163,206,096	\$169,732,121	\$170,721,847
Less:					
Fringe Benefit					
Reimbursements	(\$26,771,780)	(\$26,785,838)	(\$26,837,253)	(\$29,974,665)	(\$29,974,665)
Net Cost to the County	\$112,911,028	\$126,743,547	\$136,368,843	\$139,757,456	\$140,747,182

¹ It should be noted that even though most fringe benefits are budgeted in Agency 89, Employee Benefits, primary responsibility for administering these benefits is managed by the Department of Human Resources, the Retirement Administration Agency, and the Risk Management Division. For more information regarding the objectives, goals, and performance indicators related to the functioning of the individual programs, please refer to the individual agencies/funds.

Goal

To provide centralized budgeting and financial control over employee fringe benefits paid by the County.



Training and Conferences¹

Cost Center Summary					
Category	FY 2002 Actual	FY 2003 Adopted Budget Plan	FY 2003 Revised Budget Plan	FY 2004 Advertised Budget Plan	FY 2004 Adopted Budget Plan
Total Expenditures	\$1,453,207	\$1,625,614	\$2,313,740	\$1,377,928	\$1,276,009

¹ It should be noted that the Training and Conferences cost center includes tuition/training expenses, other operating expenses and capital equipment.

Goal

To provide centralized accounts of the expenditures of funds for training and travel.